MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BAC 3654 – PROFESSIONAL ETHICS

(All sections / Groups)

17 OCTOBER 2015
9.00 AM – 12.00 Noon
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages with 4 Questions only (excluding the cover page).

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

Question 1

New Technology Company (NTC) was launched early this year as a result of a scientific breakthrough at a research institution. The company was located in a relatively small city, some distance from the main centres of population. Because the initial capital needed was large, the scientists behind the company decided to float the company on the stock exchange and the take up of shares was very good. This meant that the initial capital needs were fully funded. The business was itself highly technical with many shareholders possess little knowledge of running a company. Upon reading the share prospectus, some analysts believed that NTC was a relatively risky business and that it could fail within two years unless a very good management team, including suitable non-executive directors (ideally locally based), was in place.

None of the scientists involved in NTC had any experience of business before and had to learn about the roles of a board and how to effectively run a company. Dr Reginald Foo, the lead scientist who made the scientific discovery, was thought to be the logical person to become chief executive but she herself questioned her suitability for the role. She said she was happy working alone in her laboratory, and very likely not to invest valuable time learning about running a business as she was not good at relating to people.

Although she is popular, her colleagues are of the opinion that Reginald sometimes struggled to see the bigger picture on a project, although she is a good scientist and excellent at detail. Reginald liked to maintain good relationship with her colleagues and therefore, she tended to avoid confrontation and conflict wherever possible.

One potential director of NTC was an experienced local businessman, Dr Daud. Upon being approached about the position, he said that he may have a conflict of interest because he was a major shareholder in one of the potential suppliers of the capital equipment which NTC would be purchasing.

Required:

(a) Assess the suitability of Dr Reginald Foo to become Chief Executive Officer (CEO) of New Technology Company (NTC). Your answer should include an explanation of the roles and personal qualities of a CEO.

(10 marks)

(b) Explain the benefits, specifically to NTC, of the appointment of 'suitable non-executive directors' on the board and discuss the difficulties which the company may encounter in non-executive recruitment.

(9 marks)

(c) Explain 'conflict of interest' and briefly discuss how a major shareholding in a potential supplier could be a conflict of interest to Dr Daud, were he to become a director of NTC?

(6 marks)

(Total 25 marks)

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Question 2

FashionWear is a large clothes retailer in a major developed country. Its business strategy is based around vigorous cost leadership and it prides itself on selling fashionable garments for men, women and children at very low prices compared to its main rivals. For many years, it has achieved this cost leadership through carefully sourcing its garments from developing countries where labour is cheaper and where workplace regulation is less than in its home country.

As a company with complex international supply chain, the board of FashionWear regularly reviews its risks. It has long understood that risks are of particular concern to the FashionWear shareholders. One of the major risks that they have identified and monitored closely is reputational risk which could be a potential source of substantial loss to the shareholders.

For the past decade or so, FashionWear has bought in a substantial proportion of its supplies from Outaland, a relatively poor developing country known for its low labour costs and weak regulatory controls. Last year, 65% of FashionWear's supplies came from this one country alone. Outaland has a reputation for corruption, including government officials. Most employees in Outaland's garment industry are employed on 'zero hours' contracts, meaning that they are employed by the hour as they are needed and released with no pay when demand from customers like FashionWear is lower.

Half of FashionWear's purchases from Outaland are from Sunsky Company, a longstanding supplier to FashionWear. Owned by the Tusila brothers, Sunsky outgrew its previous factory and wished to build a new manufacturing facility in Outaland for which permission from the local government authority was required. In order to gain the best location for the new factory and to speed up the planning process, the Tusila brothers paid a substantial bribe to local government officials.

The Tusila brothers at Sunsky felt under great pressure from FashionWear to keep their prices low and so they sought to reduce overall expenditure including capital investments. Because the enforcement of building regulations was weak in Outaland, the officials responsible for building quality enforcement were bribed to provide a weak level of inspection when construction began, thereby allowing the brothers to avoid the normal Outaland building regulations. In order to save costs, inferior building materials were used which would result in a lower total capital outlay as well as a faster completion time. In order to maximise usable floor space, the brothers were also able to have the new building completed without the necessary number of escape doors. In each case, bribes were paid to officials to achieve the outcomes the Tusila brothers wanted.

Once manufacturing began in the new building, high demand from FashionWear meant that Sunsky was able to increase employment in the facility. Although, according to Outaland building regulations, the floor area could legally accommodate a maximum of 400 employees. However, over 1,200 were often working in the building in order to fulfil

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orders from overseas customers including FashionWear.

After only two years of normal operation, the new Sunsky building collapsed with the loss of over 800 lives. Collapsing slowly at first, the number of people killed or injured was made much worse by the shortage of escape exits and the large number of people in the building. As news of the tragedy was broadcast around the world, commentators reported that the weakness in the building was due to the West's 'obsession with cheap clothes'. FashionWear was criticised as being part of the cause, with many saying that if retailers in the developed world pushed too hard for low prices, the collapse of the building was one consequences. In response, FashionWear's public relations department said that it entered into legal contracts with Sunsky in order to provide its customers with exceptional value for money. FashionWear said that it was appalled and disgusted that Sunsky had acted corruptly and that the FashionWear board was completely unaware of the weaknesses and safety breaches in the collapsed building.

Required:

(a) Discuss the claims of employees and customers as Sunsky's stakeholders, and how these claims may be in conflict.

(7 marks)

(b) Explain 'corruption' in the context of the case and discuss how corruption at Sunsky contributed to the collapse of the building and the loss of life.

(9 marks)

(c) FashionWear's board believed that reputational risks may impact on potential long term profit.

i. Discuss the determinants of reputation
ii. What would future reputational damage affect and how could it be measured?
iii. What steps could FashionWear take to restore its reputation and what challenges will it have to overcome?

(9 marks)
(Total 25 marks)

Question 3

a) Explain what are the constraints (mitigating factors) that can influence whether or not a decision maker does the right thing?

(6 marks)

b) With examples, differentiate between consequentialism and deontology. Also explain with examples, the two laws namely categorical and practical imperatives for assessing ethicality under deontology.

(11 marks)

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c) Discuss with suitable examples, two weaknesses of Deontology theory of ethics.

(4 marks)

d) Why is it important for the clients of professional accountants to be ethical? Justify your arguments.

(4 marks)

(Total 25 marks)

Question 4

a) It is argued that "in its normal activities, a corporation considers ethical behavior of great importance in today's competitive world. However, ethical considerations should be even more important in crisis situations, since crisis resolution decisions usually define a corporation's future reputation and credibility".

In the light of the above argument, discuss **three** ways a corporation should incorporate ethics into its crisis management.

(12 marks)

b) Discuss the Traditional 5-Question Approach to stakeholder impact analysis. What are its limitations?

(7 marks)

c) With an example, explain the concept of "fiduciary relationship' in the context of discharging his/her duties by a professional accountant

(3 marks)

d) Why might ethical corporate behavior lead to higher profitability?

(3 marks)
(Total 25 marks)

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